

Docket No. 03-0400  
ICC Staff Exhibit No. 5.0

**DIRECT TESTIMONY**

**of**

**Cheri L. Harden  
Rate Analyst**

**Rates Department  
Financial Analysis Division  
Illinois Commerce Commission**

**Proposed General Increase in Water Rates**

**Utilities, Inc. d/b/a  
Charmar Water Company**

**Docket No. 03-0400**

**August 28, 2003**

1 **Q. Would you please state your name and business address?**

2 A. Cheri L. Harden, 527 East Capitol Avenue, Springfield, Illinois 62701.

3  
4 **Q. By whom are you employed and in what capacity?**

5 A. I am employed by the Illinois Commerce Commission ("Commission") as a Rate  
6 Analyst in the Rates Department in the Financial Analysis Division.

7  
8 **Q. How long have you been employed by the Illinois Commerce Commission?**

9 A. I have been employed by the Commission since September 2000. My  
10 responsibilities include rate design and cost of service analyses for electric,  
11 water and gas utilities and the preparation of testimony on rates and rate-related  
12 matters.

13  
14 **Q. Will you please briefly state your qualifications?**

15 A. I graduated from the University of Maryland in 1993, with a Bachelor of Science  
16 degree in Management Studies.

17  
18 Previously, I worked for the Wyoming Public Service Commission for almost  
19 seven years. The last two positions I held were as the Consumer Services  
20 Coordinator and as a Rate Analyst. I analyzed telecommunications, electric  
21 (investor-owned and cooperatives), gas, water and pipeline company filings. I  
22 reviewed a variety of cases including mergers, tariff revisions, fuel adjustments,  
23 certificate applications, complaints, contract/interconnection agreements and  
24 rate cases. I also worked on special projects such as the Universal Service

Fund, Annual Reports and Year 2000 Preparedness.

**Q. Have you formerly testified before regulatory bodies?**

A. Yes, I have testified on several occasions before the Illinois Commerce Commission and the Wyoming Public Service Commission.

**Q. What area does your testimony address?**

A. My testimony will discuss Charmar Water Company's ("Charmar" or "Company") filing for a general increase in rates. I will be presenting testimony and exhibits concerning cost of service and rate design issues. I will also testify to the proposed test year billing units and the development of charges associated with miscellaneous operating revenue.

**Q. Are you making any recommendations concerning the appropriateness of the total annual revenue requirement for the Company in this proceeding?**

A. No, I am not. My testimony is directed toward the review of the proposed tariffs (and underlying support) filed by the Company to recover the revenue requirement deemed appropriate in this proceeding. I utilize the revenue requirement discussed by Staff Witness Leslie Pugh in her testimony at page 3 under the heading of Revenue Requirement Schedules.

46 **Q. Please explain how your testimony is organized.**

47 A. I begin with a review of the Company's test year billing units and proposed  
48 proforma total revenues. Then I will discuss the development of Staff's proposed  
49 rates and issues related to rate design. I conclude with a discussion about  
50 miscellaneous water tariff charge issues.

51

52 **Q. Are you presenting any schedules?**

53 A. Yes I am. I have attached the following schedules:

54 Schedule 5.1 – Required Cost of Service Breakdown

55 Schedule 5.2 – Rate Design Analysis

56 Schedule 5.3 – Typical Bill Calculation

57

58 **Q. Did you send any data requests to the Company?**

59 A. I am adopting data requests WDM 1.01 – 1.37. I used these data responses,  
60 which Staff received from the Company on June 13, 2003, in preparing my  
61 testimony.

62

63 **Q. Please describe Charmar Water Company.**

64 A. Charmar is a wholly owned subsidiary of Utilities, Inc. ("UI") who owns 24 water  
65 and wastewater utilities in Illinois. Water Service Corporation ("WSC") manages  
66 the operation for all of UI's water and wastewater systems, including Charmar.

WSC provides management, administration, engineering, accounting, billing, data processing, and regulatory services for the utility systems. (Ross, Direct Testimony, p. 1)

Charmar provides water service to approximately 53 residential customers in Charmar subdivision in Lake County, Illinois. (Ross, Direct Testimony, p. 2).

**TEST YEAR BILLING UNITS AND TOTAL REVENUES**

**Q. What test year water usage levels and billing units is the Company proposing to use in this case?**

A. The Company is proposing to use year ending December 2002, usage levels and billing units for the test year. (Ross Direct Testimony, p. 2)

**Q. Do you have any adjustments to the Company's proposed proforma test year usage levels and billing units?**

A. Yes, I do. On the Company's Schedule E, Proposed Revenues the Company shows billing units to be 624 for the Facilities Charge. That equates to 52 customers over the 12-month period.

The Company stated in WDM 1.01 that the Company has had 53 customers for each year ending 1993, through 2002, and through the latest billing period of

88 2003. In WDM 1.18, the Company stated that the 624 billing units represents  
89 the actual billing units for 2002. In WDM 1.19, the Company explains that there  
90 are 53 meters located within the service area, however, three of these meters  
91 were unused for the last two billing periods of the year. In data response WDM  
92 1.23, the customer count has been referred to as 53. In this data response the  
93 count of 53 was used to convert from a bimonthly billing cycle to a monthly billing  
94 cycle and the cost increase that would result from the change.

95  
96 I am proposing a customer count of 53, which translates to 636 billing units.  
97

98 **Q. Did you review the Company's exhibits, workpapers, and data request**  
99 **responses concerning present and proposed water revenues?**

100 A. Yes, I did.  
101

102 **Q. Has the Company identified Miscellaneous Operating Revenues for the test**  
103 **year?**

104 A. Yes, the Company has identified a total of \$130 in Miscellaneous Operating  
105 Revenues for the test year. This was identified in Company response to Staff  
106 Request WDM 1.11 as consisting of \$106.00 in Forfeited Discounts and \$24 in  
107 New Customer Charge revenues. However, in a Data Request WDM 1.04 the  
108 Company identified a dollar amount for late payment charges of \$12.83 that did

not seem to be identified in the response from the Company to Date Request  
WDM 1.11.

**Q. Has the Company provided any evidence to explain this discrepancy?**

A. The Company stated, through direct conversation with Staff, that the Forfeited Discount figure of \$106 represents the full amount of Late Payment Charges collected by the Company for the test year including the \$12.83.

**Q. Do you have any adjustments to revenues because of your review?**

A. Yes, I have adjusted Miscellaneous Operating Revenues as discussed below.

Forfeited Discounts are based on late payment fees that customers pay when their bills are past due as previously discussed. Late Payment Charges are 1.5% of a customer's total bill each month. Therefore, if the Company's rates increase, Forfeited Discounts/Late Payment Charge revenues will also increase.

I made an adjustment to reflect approximately the same number of customers paying their bills after the due date, but at Staff's proposed rates.

I have also adjusted the New Customer Charge under Miscellaneous Operating Revenues. As discussed later in my testimony I propose to increase the New Customer Charge from \$12 to \$15.

130

131 Miscellaneous Operating Revenues can be found on ICC Staff Exhibit 5.0,  
132 Schedule 5.2.

133

134 **Rate Design**

135 **Q. What is the purpose of a cost of service study for a water company?**

136 A. A cost of service study in the water industry is performed to assist in the  
137 development and design of cost based water rates. It determines the  
138 appropriate cost of service for each customer class (e.g., residential,  
139 commercial, industrial or availability).

140

141 **Q. Did the Company submit a cost of service study for Charmar?**

142 A. No, it did not.

143

144 **Q. Does the Company provide any support for its proposed charges?**

145 A. The Company provided accounting workpapers in response to Data Request  
146 WDM 1.13 that were used by the Company to determine the proposed water  
147 rates. However, the Company does not describe any methodology it used to  
148 determine the proposed rates.

149

150 **Q. Does this lack of cost support present a problem?**



151 A. Yes. The Commission has a longstanding objective of basing rates on costs.  
152 The lack of a cost foundation means that the Company's proposals fall short of  
153 this objective.

154

155 **Q. How would Staff normally address the Company's failure to base its**  
156 **proposed rates on costs?**

157 A. The normal response would be for Staff to develop an alternative cost of service  
158 study to use as a foundation for deriving cost-based rates.

159

160 **Q. Did you prepare a cost of service study for Charmar?**

161 A. No, I did not.

162

163 **Q. Please explain.**

164 A. The Company has provided insufficient data to develop such a study. Staff's  
165 water cost of service study requires detailed cost and plant information in order  
166 to generate rates that are considered cost based. To secure that information,  
167 Staff sent a data request to the Company (See ICC Staff Exhibit 5.0, Schedule  
168 5.1) that identified specific categories, which would enable Staff to perform a  
169 cost of service study. The Company did respond to Staff's data request by  
170 providing information, but the information was not broken down in an appropriate  
171 manner.

172

173 For example, the Staff study needs to identify the costs associated with billing in  
174 order to determine the appropriate levels of facility charges. To determine that  
175 figure, Staff asked the Company to identify the level of customer account  
176 expenses in data request WDM 1.12. In its response, the Company failed to  
177 identify customer account expenses. Staff disputes this response given that the  
178 Company incurs expenses such as postage, paper, labor and related costs in  
179 maintaining customer accounts. Thus, acceptance of the Company number  
180 would clearly undermine the accuracy of Staff's cost of service study. Further,  
181 there is no support on the record for using an alternative customer account  
182 figure. This lack of data serves to undermine Staff's effort to develop a cost of  
183 service study for the Company.

184

185 Additional questions arise concerning other account data provided by the  
186 Company for Staff's cost of service study. The Company identified \$8,074 of  
187 Plant in Service costs associated with services. However, it did not attribute any  
188 Operation and Maintenance expenses to those services. This unrealistically  
189 assumes that a significant component does not require any additional  
190 expenditure to be operated or maintained. In addition, no expenses were  
191 identified for Transmission and Distribution related supervision, hydrants, and  
192 storage. While it is possible that the Company may not have expended costs in

193 some of these categories since the last rate case, the possibility of no  
194 expenditures in all the categories mentioned is quite low.

195  
196 The more likely explanation is that the Company does not have the kind of  
197 reliable, specific information necessary to perform a cost of service study. This  
198 conclusion is supported by a phone conversation with Company witness Ross,  
199 who stated that the Company does not keep the detailed type of records Staff  
200 needs for its cost of service study.

201  
202 **Q. Please explain the Company's present rate structure.**

203 A. The Company's present rate structure consists of a base monthly facilities  
204 charge and a single block usage charge for metered residential customers that is  
205 billed bimonthly. The Company's present and proposed charges under the  
206 current rate structure can be found on ICC Staff Exhibit 5.0, Schedule 5.2.

207  
208 **Q. What methodology do you propose to use for the development of Staff's**  
209 **rates?**

210 A. I propose to apply an across-the-board equal percentage increase to current  
211 rates to meet the revenue requirement.

212  
213 **Q. What is the justification for your proposed approach?**

214 A. It is justified by the lack of accurate data to develop a cost-based alternative. As  
215 previously noted, the Company has failed to provide the necessary information to  
216 develop a cost of service study for this case. Thus, there is no cost foundation  
217 for increasing one rate more or less than another. In the absence of such  
218 support, the most equitable approach is to increase all rates (facility and  
219 gallonage) on an equal percentage basis, which is my proposal in this case.

220

221 Q. What specific charges for metered service have you developed based on  
222 your across-the-board approach?

223 A. I have developed the set of charges presented in ICC Staff Exhibit 5.0, Schedule  
224 5.2. These recommended increases were based on applying an equal  
225 percentage increase to existing charges to produce Staff's proposed revenue  
226 requirement net of the revenues produced by miscellaneous charges. For the  
227 reasons discussed previously, Staff's Miscellaneous Operating Revenues differ  
228 from the Miscellaneous Operating Revenues calculated by the Company.

229

230 **MISCELLANEOUS TARIFF ISSUES**

231 Q. What do you propose with respect to Miscellaneous Operating Revenue  
232 Charges?

233 A. I propose a set of charges that are consistent to the extent possible with the  
234 corresponding Miscellaneous Operating Revenue Charges for other Utilities, Inc.

water and sewer companies participating in the current round of rate proceedings. That proposal includes an NSF Check Charge of \$10 and a New Customer Charge of \$15.

**Q. Please begin your discussion by explaining your proposed NSF Check Charge of \$10.**

A. The Company's current and proposed charge is \$7, which has been in effect since 1991 (Company response to WDM 1.37). However, as the Company itself recognizes in this data response, there has been inflation since 1991, and the proposed charge should be adjusted accordingly (Id.). In addition, the Company states it would not object to a uniform NSF Check Charge across UI operating companies (Id.). The Staff proposed \$10 charge recognizes the impact of inflation since 1991. Further, given that there is currently a \$10 NSF Check Charge in effect for UI's Northern Hills Water & Sewer Company that was approved by the Commission in Docket No. 98-0045, Staff's proposal is more consistent with current Commission practice. Finally, since this same proposal is made for other UI companies, it will advance the goal of uniformity.

**Q. Please explain your proposed New Customer Charge of \$15.**

A. The Company's current and proposed charge is \$12, which has been in effect since 1991 (Company response to WDM 1.36). However, as the Company itself

recognizes in this data response, there has been inflation since 1991 and the proposed charge should be adjusted accordingly (Id.). In addition, the Company states it would not object to a uniform New Customer Charge across UI operating companies (Id.). The Staff proposal of a higher \$15 charge recognizes the impact of inflation since 1991. Further, given that there is currently a \$15 New Customer Charge in effect for UI's Northern Hills Water & Sewer Company that was approved by the Commission in Docket No. 98-0045, Staff's proposal is more consistent with current Commission practice. Finally, since this same proposal is made for other UI companies, it will advance the goal of uniformity.

**Q. Did the Company propose changes to its current Rules, Regulations and Conditions of Service tariffs in its initial filing for this case?**

A. Yes. The Company has proposed to update its Rules, Regulations, and Conditions of Service tariffs since they have not been updated in more than 19 years. (Ross, Direct Testimony, p. 8) These changes will be addressed by ICC Staff Witness William Marr in ICC Staff Exhibit 3.0.

**Q. Did you prepare a typical bill calculation?**

A. Yes, I did. It is attached as ICC Staff Exhibit 5.0, Schedule 5.3.

**Q. If the Commission determines a revenue requirement for Charmar, other**

277 **than that recommended by Staff, how do you recommend the rates be**  
278 **adjusted?**

279 A. I recommend metered rates be adjusted on an equal percentage basis to  
280 produce the revenue requirement adopted by the Commission in this proceeding.  
281 That would be consistent with Staff's overall rate design approach of raising  
282 rates on an equal percentage basis.

283  
284 **Q. Do you have any recommendations to the Commission to improve the**  
285 **quality of the cost data provided by the Company in future rate cases?**

286 A. Yes, I recommend that the Commission direct the Company to provide reliable  
287 and accurate data that conforms to the categories of costs presented in ICC  
288 Staff Exhibit 5.0, Schedule 5.1. This cost data is essential because it represents  
289 the minimum level of cost detail necessary to prepare a cost of service study.  
290 Furthermore, in developing this cost data, the Company should be directed to  
291 show how all costs incurred on a system-wide basis are allocated to each  
292 individual water company.

293  
294 **Q. Do you have any further recommendation to the Commission concerning**  
295 **future UI proceedings?**

296 A. Yes, I recommend that the Commission not limit this directive to Charmar only,  
297 but rather require UI to provide more complete, accurate cost data for all future

298 rate cases by any of its Illinois affiliates. Staff has found that cost data problems  
299 are not limited to a single utility. Therefore, it is essential that UI be required to  
300 adopt a company-wide policy of upgrading its cost information.

301

302 **Q. Do you have any further recommendations to the Commission?**

303 A. Yes. I recommend that the Commission order Charmor to file the rate tariffs,  
304 within 10 days of the final Order with an effective date of not less than 10  
305 working days after the date of filing, for service rendered on and after their  
306 effective date, with individual tariff sheets to be corrected within that time period  
307 if necessary.

308

309 **Q. Does this conclude your direct testimony in this proceeding?**

310 A. Yes, it does.



Required Cost of Service Breakdown  
Charmar Water Company  
Data Request WDM 1.12

Docket No. 03-0400  
ICC Staff Exhibit 5.0  
Schedule 5.1

PLANT IN SERVICE	
INTANGIBLE PLANT	0
SOURCE OF SUPPLY	0
PUMPING PLANT	0
WATER TREATMENT PLANT	0
TRANSMISSION AND DISTRIBUTION	
Mains	0
Meters	0
Services	0
Hydrants	0
Storage	0
GENERAL PLANT	0
TOTAL PLANT IN SERVICE	0

O & M EXPENSES	
SOURCE OF SUPPLY	0
PUMPING EXPENSES	
Electrical	0
Other	0
WATER TREATMENT EXPENSE	
Chemicals	0
Other (Tests)	0
TRANSMISSION AND DISTRIBUTION	
Supervision	0
Mains	0
Storage/Structures	0
Hydrants	0
Meters	0
Services	0
Misc., Rent, Other Plant	0
CUSTOMER ACCOUNT EXPENSES	0
Remainder excl. uncol.	0
SALES EXPENSES	0
ADMINISTRATIVE AND GENERAL	0
Uncollectible	0
SUBTOTAL OPER. & MAIN.	0
RECONCILIATION	
TOTAL OPERATION & MAINTENANCE	0
Depreciation	0
Other Taxes	0
Income Taxes	0
Utility Operating Income (Revenues)	0
TOTAL (Net Operating Income)	0

# RATE DESIGN ANALYSIS

Charmar Water Company

Docket No. 03-0400

ICC Staff Exhibit 5.0

Schedule 5.2

	Company Present			Company Proposed			% increase over Present	Staff Proposed			% increase over Present
	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue		Billing Units	Rate	Revenue	
FACILITIES CHARGES											
Residential 5/8"	624	\$6.25	\$3,900	624	\$15.50	\$9,672	148.0%	636	\$10.25	\$6,519	64.0%
SUBTOTAL			\$3,900			\$9,672				\$6,519	
GALLONAGE CHARGES											
Metered	3175	\$5.10	\$16,193	3175	\$7.38	\$23,435	44.7%	3175	\$8.35	\$26,515	63.7%
Vacant & Adjustment						\$0					
SUBTOTAL			\$16,193			\$23,435				\$26,515	
Unreconciled Difference			\$0			\$0				\$0	
SUBTOTAL FACILITIES & GALLONAGE			\$20,093			\$33,107	64.8%			\$33,034	64.4%
MISCELLANEOUS OPERATING REVENUE											
Forfeited Discounts/Late Payment Charges			\$106			\$106	0.0%			\$174	64.2%
New Customer Charge			\$36			\$24	-33.3%			\$30	-16.7%
Misc. Service Revenues			\$0			\$0	0.0%			\$0	
Uncollectible Accounts			\$0			\$0				\$0	
Reconnection Fee			\$0			\$0				\$0	
Non Sufficient Funds (NSF)			\$0			\$0	0.0%			\$0	
MISC. SUBTOTAL			\$142			\$130	-8.5%			\$204	43.7%
TOTAL OPERATING REVENUE			\$20,235			\$33,237	64.3%			\$33,238	64.3%

**CHARMAR WATER COMPANY  
TYPICAL RESIDENTIAL BILL COMPARISON**

Docket No. 03-0400  
ICC Staff Exhibit 5.0  
Schedule 5.3

LINE NO.		CURRENT	COMPANY PROPOSED	STAFF PROPOSED
1	Facilities Charge	\$6.25	\$15.50	\$10.25
2	Gallorage Charge (per 1,000 gallons)	\$5.10	\$7.38	\$8.35

	USAGE 1,000 GALLONS (A)	CURRENT MONTHLY BILL (B)	COMPANY PROPOSED MONTHLY BILL (C)	DOLLAR INCREASE (D)	PERCENT INCREASE (E)	STAFF PROPOSED MONTHLY BILL (F)	DOLLAR INCREASE (G)	PERCENT INCREASE (H)
3	1	\$11.35	\$22.88	\$11.53	101.59%	\$18.60	\$7.25	63.88%
4*	2	\$16.45	\$30.26	\$13.81	83.95%	\$26.95	\$10.50	63.83%
5	3	\$21.55	\$37.64	\$16.09	74.66%	\$35.30	\$13.75	63.81%
6	6	\$36.85	\$59.78	\$22.93	62.23%	\$60.35	\$23.50	63.77%
7	9	\$52.15	\$81.92	\$29.77	57.09%	\$85.40	\$33.25	63.76%

**Notes:**

\* Typical monthly residential usage